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Introduction

11. (SBU) We look forward to your visit June 25-26 to meet with President Ortega, students at UNAN, and political and economic leaders. Your visit comes as Nicaragua prepares for municipal elections in November. President Ortega's political maneuvering in the last 18 months has resulted in a significant blurring of the line between the party and the state, diminishing democratic space and slowing the economy. Efforts by past administrations have begun to yield results in health and education, but this progress is being undermined by the recent economic downturn.

Health and Social Trends

12. (U) The current population of Nicaragua is 5.4 million; life expectancy at birth is 72.9 years. Since 1991, Nicaragua has steadily improved prenatal care coverage and made impressive gains in infant mortality, which has dropped from 52 deaths per 1,000 live births in 1991 to 29 per 1,000 in 2007. The percentage of women in monogamous relationships currently using a modern family planning method is 69.8% and the total fertility rate has decreased from 4.6 children per family in 1992/3 to 2.7 in 2006/7. The country has made progress in controlling the spread of diseases by achieving and maintaining high vaccination coverage (85%) and introducing vaccines, e.g., the MMR vaccine in 1998, the pentavalent vaccine in 1999, and the rotavirus vaccine in 12006. Since 2004, infectious disease has fallen from fourth to fifth place among the leading causes of death, with the number of such deaths down nearly 50% since 1996.

13. (U) Social indicators for Nicaragua have also been improving. UNESCO statistics show that 90% of primary school age children were enrolled in 2006, up from 73% in 1991. In 2007, the Minister of Education reported overall school enrollment of 86.5%. Nicaragua's score on the United Nations Human Development Index rose by 43% from 1990 to 2007 (from 0.496 to 0.710). Despite these statistical gains, the benefits of economic development have been uneven; over 50% of Nicaraguans fall below the UN poverty line. Blackouts, water shortages, weak transportation infrastructure, and high energy prices disproportionately affect the poorest, especially in rural areas.

¶4. (SBU) The Embassy continues to engage with the Nicaraguan Government on areas of common interest, despite President Daniel Ortega's frequent public criticism of the United States. The military and National Police remain relatively independent, apolitical forces, and our cooperation with these institutions to counter terrorist and criminal threats remains good. We also support those elements of Nicaragua's civil society, private sector, political class, and government willing to defend Nicaragua's fragile democracy. USAID's program supports efforts to strengthen democracy; promote economic growth, especially through market-driven assistance for small farmers; and improve education and health care systems. Millennium Challenge Corporation is in the third year of a five year, \$175 million compact that promotes rural business development, builds transportation infrastructure, and improves property registration. USDA assistance provides financing to small farmers and supports government programs on sanitary and phytosanitary standards for food exports. U.S. Treasury provides important technical assistance on debt management and tax collection, while an extensive Peace Corps program supports rural development, health education, and English-language teaching.

Foreign Policy

¶5. (SBU) Ortega has pursued close ties with Venezuela and cooperative relations with Iran. Immediately after his inauguration, Ortega signed on to Chavez' Bolivarian Alternative for the Americas (ALBA), and in late 2007 he concluded an agreement with Venezuela that redirects up to 50% of oil purchases to development programs. Opposition leaders and democracy watchdog groups complain that accounting for this off-budget funding is not transparent. President Ortega quickly sided with Venezuela and Ecuador and briefly broke relations with Colombia in March over Colombia's strike against the FARC's compound in northern Ecuador. Despite reciprocal state visits, Iran, has still not concluded an investment deal nor responded to Ortega's request to forgive its sovereign bilateral debt. On the multilateral front, President Ortega has succeeded in having former Foreign Minister Miguel d'Escoto, known to detest the United States, chosen by the Group of Latin American countries to serve a one-year term as U.N. General Assembly President beginning September 2008.

Political Climate

¶6. (C) President Ortega has skillfully used his political pact with former President and convicted felon Arnoldo Aleman to wrest control over most institutions of government and blur the distinction between party and state. The centerpiece of Ortega's "second phase of the revolution" is the introduction of Qadhafi-style "direct democracy" in Nicaragua through the establishment of Citizen Power Councils (CPCs). These groups, nominally representing civil society, but directed by First Lady Rosario Murillo, are bypassing elected municipal governments and increasingly assuming a leading role in the distribution of FSLN patronage, such as housing and discounted food.

¶7. (C) November 2008 municipal elections dominate the political landscape at this time. Ortega's FSLN party will face a weakened democratic opposition in what many view as a referendum on his direct democracy model and his poor record of governance during the first two years of his term (Ref C).

On June 11, the Supreme Electoral Council, controlled by Aleman and Ortega, barred two prominent democratic parties from participating in the upcoming elections, further narrowing democratic space, eliminating potential challenges, and stretching their political reach.

Macroeconomic and Financial Outlook

¶8. (SBU) Although frequently critical of free trade and

capitalism, Ortega has so far maintained the legal and regulatory underpinnings of the market-based economic model of his predecessors. Economic growth for 2007 was 3.8%. Many independent economists believe 2008 growth will be closer to 2.5%, given the local drop in investment and construction and the impact the U.S. the economic slow down may have on trade and remittances.

¶9. (SBU) Under an International Monetary Fund program signed in October 2007, the Nicaraguan Government agreed to implement free market policies linked to targets on fiscal discipline, spending on poverty, and energy regulation. Ortega's frequent populist rhetoric calls into question his commitment to these targets. Inflation is on track to exceed 20% this year, boosted by rising fuel and food prices, increase in aggregate demand, and a 30% increase in the minimum wage for most occupations. The lack of a strong anti-inflation program is worrisome to many economists, given the likelihood that off-budget Venezuelan assistance has created excess liquidity. In addition, the government replaced a successful agricultural development program that provided improved seeds and technical assistance to farmers for a program that provides a families identified by local CPCs with livestock and unimproved seeds. Complicating the situation is that budget execution remains far below targets, leaving needed infrastructure and other capital projects on the drawing board.

Trade and Investment

¶10. (U) Trade continues to be the primary engine of economic growth for Nicaragua. In 2008, the volume of exports has grown 18% over the same period in 2007. On April 1, 2006, CAFTA-DR entered into force for the United States and Nicaragua. Exports to the United States, which account for 55% of Nicaragua's total exports, were \$1,608.4 million in 2007, up 36.3% from 2005.

¶11. (C) Despite important protections for investment included in CAFTA-DR, the investment climate has steadily worsened since Ortega took office. On more than a dozen occasions, the government has used its tax, customs, and property administrations to pressure individuals and companies into accepting noncommercial terms in concessions or contracts. Uncertain property rights also contribute to the deterioration of the investment climate, especially for tourism investment. Foreign investment inflows totaled \$337 million in 2007, including U.S. firm Cone Denim's \$100 million mill (Ref A) and Mexican and Spanish investment of \$120 million in telecommunications infrastructure.

Comment

¶12. (C) This will be the first USG visit since the President Ortega's recent actions to prevent two opposition parties from standing in national municipal elections in November and perhaps even the presidential elections in 2011. Your visit provides an opportunity to express USG concerns that these actions call into question the government's commitment to democratic principles. Our bilateral agenda with Nicaragua counts on progress in key areas such as: increasing democratic space, reducing corruption, practicing good governance, and honoring CAFTA agreements. Your dialogue with Nicaraguan opposition leaders and private sector representatives will also demonstrate U.S. resolve in continuing its economic engagement and partnership with the Nicaraguan people.

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